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SJ: Pricing of32 Super Micros in the AFEA Region

Executive Summary

After a careful analysis of costs and marketing parameters, we propose the following ASP's for the Apple 32 Systems from Apple to the regions:

	Mac	Lisa 2.0	Lisa 2/5
Australia	1566*	2301	3394
Latin America**	1449	2202	3127
Distributor	1365	2150	2985

The pricing proposal for Macintosh is derived from a model based on fully allocated cost plus analysis. We propose an ROS of 15% to Apple, based on the competitive environment.*** This number compares favorably with the average estimated ROS for domestic of 14%. In our models, we have assumed current manufacturing cost levels. Our ROS will improve as manufacturing costs decrease and as sales volumes increase. Thus we are being conservative in relation to the domestic ROS.

Lisa 2.0 pricing is based on contribution to corporate fixed costs of 10%. Lisa 2/5 pricing is at the breakeven point, and therefore does not contribute to fixed cost absorption. Under this scheme all local costs are covered in both cases. This pricing scheme for Lisas is motivated by the high inventory exposure.

No pricing is provided on Lisa 2/10, because accurate manufacturing cost numbers are not available at this time.

An analysis of the Japanese pricing and market situation follows in a separate memorandum.

A more detailed exposition of our models and assumptions is given below.

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*Australia has already announced a retail price of Aus.$3445, or Aus.$3008, without tax, equivalent to US $2734 (w/o tax). This price includes 17% uplift for freight, etc., and 33% dealer margin. Thus Australia is in effect contributing almost 12% to company profits. Under our model, $1631 would contribute the desired 15%.
**For arbitrage reasons, the price in the Carribean region must parallel US prices, and therefore will contribute lower profits. The actual numbers will be analyzed separately.
***See the first footnote.
Objectives

• Develop a model that allows for pricing based on the local costs and market conditions of each of the following regions: Australia, Japan, Latin America, and Rest of the World.
• Propose prices based on the above model and examine their consequences.

Model

Price(channel) = C(mfg)+VC(sales)+FC(local)+FC(corp.alloc) + ROS

where:

Price(channel) — the price charged to the distributor or subsidiary by Apple,
C(mfg) — fully loaded manufacturing cost,
VC(sales) — variable sales costs, including Coop, rebates, etc., as percent of sales,
FC(local) — fixed sales costs of each region divided by Mac regional unit forecast,

FC(corp.alloc) — corporate costs allocated to Macintosh minus non-applicable costs, such as cost of North American sales, etc., divided by Mac regional units.
ROS — Return on Sales.

The chart below summarizes the costing structure per unit product, assuming current forecasts.

Results

The following table shows the ASPs corresponding to ROS's of 15%, 10% and breakeven points for all products.

The price of $2180 for 2.0 and 2805 for 2/5 have already been quoted to some distributors. These prices were communicated with the understanding that they were preliminary. These estimated prices were calculated based on the US pricing strategy.